

TO THE SHAREHOLDERS OF UNITED NUCLEAR CORPORATION

UNC has won a Sanctions Order and Default Judgment in its suit against General Atomic Company. I am pleased to report this most favorable development in our Company's two-and-one-half-year litigation with General Atomic and Gulf Oil Corporation. At issue have been two uranium supply agreements between United Nuclear and General Atomic. Together they involve some 27 million pounds of uranium, a very substantial fraction of UNC's production capability over the next seven or eight years.

On March 2, 1978, the Trial Court imposed a Sanctions Order and Default Judgment in favor of United Nuclear, based on General Atomic's continuing failure, over a period in excess of two years, to comply with the Court's orders and with agreements made with UNC to produce information under discovery procedures to allow UNC to present its case properly. The effect of the ruling is to void the uranium supply contracts and render them unenforceable. The Court will determine further damage awards, if any, after hearings for that purpose.

This judgment is subject to appeal; however, there is substantial legal precedent for this type of ruling. Should an appeal of this ruling succeed, however, the case will be returned to the same court for a further trial on the merits. We remain confident of our position and fully expect that the case would again be decided in our favor on one or more of the issues—antitrust, fraud and breach of fiduciary duties, and commercial impracticability.

YOU AND YOUR INVESTMENT

What will a successful resolution of this case mean to you and your investment? A very great deal, in both the short and long term.

In the first place, the Default Judgment should enable UNC to sell those 27 million pounds at current or future market prices instead of delivering them at an average price of \$11 per pound. Current market price is approximately \$43 per pound.

Equally significant is how this resolution will position UNC relative to other U.S. producers of uranium. Approximately 75% of UNC's 100 million pounds in reserves are in developed properties; the mines are already established and in most cases adequate milling capacity is available. That's the largest percentage of developed uncommitted reserves of any major U.S. producer, an important fact in light of the difficulty many producers are having in licensing and bringing new facilities on line.

You can get a better picture of UNC's market position from the following table:

SCHEDULED PRODUCTION V. DELIVERY COMMITMENTS
(Pounds in thousands)

| Fiscal Year Ended March 31 | Scheduled Production | Committed Pounds | Average Price/Pound | Uncommitted Production Available for Sale |
|----------------------------|----------------------|------------------|---------------------|---|
| 1979 | 4,500 | 2,320 | \$15.55 | 2,180 |
| 1980 | 5,200 | 1,106 | 23.39 | 4,094 |
| 1981 | 6,200 | 1,100 | 44.24 | 5,100 |
| 1982 | 6,500 | 200 | 59.00 | 6,300 |
| 1983 | 7,000 | 100 | 62.00 | 6,900 |

As you can see, resolution of the litigation on this basis will put UNC in a strong position relative to future earnings growth. It also significantly contributes to accomplishment of the following corporate goals:

LONG-TERM MARKETING

UNC can now effect a long-term marketing plan for uranium, one that balances judicious sales on the spot market and long-term future delivery commitments with escalation provisions that should protect the Company in terms of future production costs and market prices. We believe that the current market price of about \$43 per pound will continue to rise slightly over the next two years and more rapidly for a period thereafter.

INCREASING PRODUCTION

The Company is in a sounder position to complete its previously announced uranium production expansion program, which has been prolonged by conditions common to the entire industry. As the table above indicates, our annual production will rise from the present level of 3.8 million pounds to 4.5 million pounds in fiscal year 1979 and to 7 million pounds by 1983.

STRENGTHENING UNC'S CAPITAL STRUCTURE

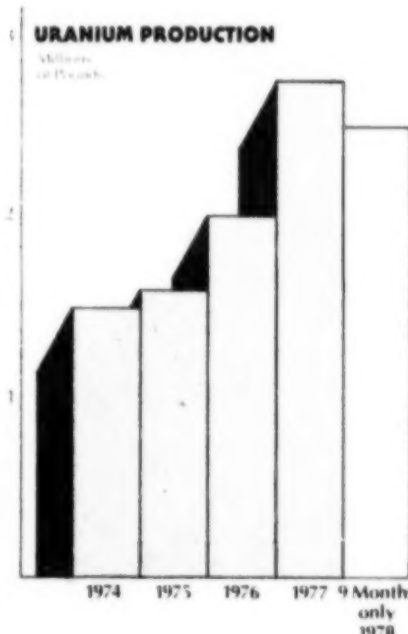
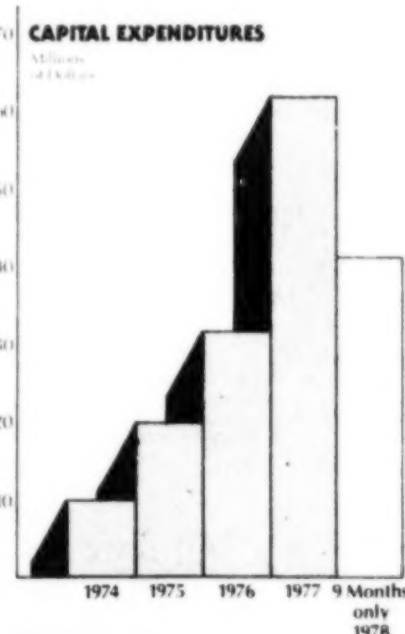
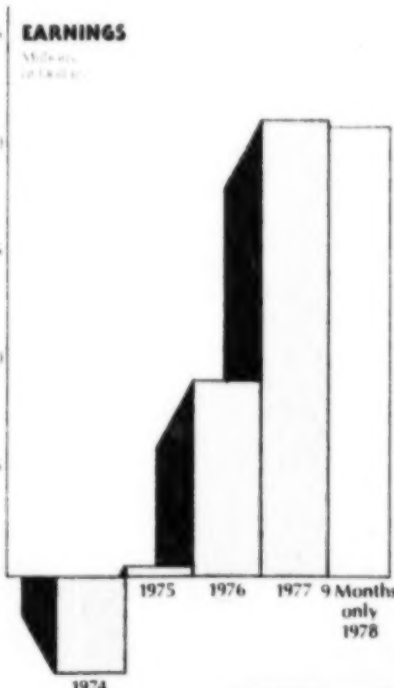
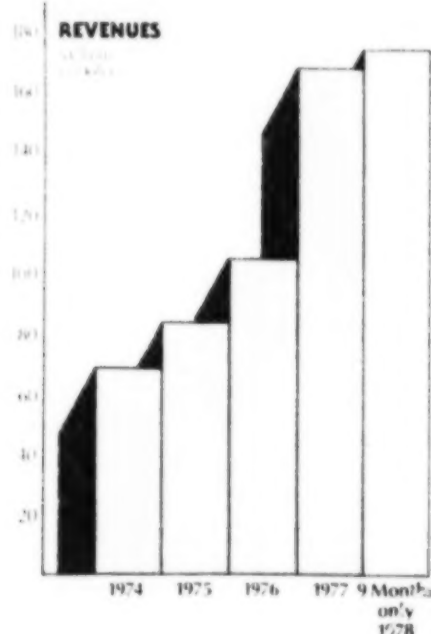
Inevitably, the possibility that we would have to fulfill the supply agreements has adversely affected the Company's position, especially in the financial community. Final resolution of the litigation on this basis will remove that uncertainty. Future financial arrangements should reflect more advantageously the Company's underlying assets and enhanced potential for the future.

The resolution of the litigation is of great importance for the future of UNC. Added to the heartening accomplishments of the last five years—indicated by the updated charts below—it signals a new era of great progress, one which should see UNC's earnings become both more mature and more predictable and the Company's capacity for future development greatly enhanced.

This could be the most favorable event in UNC's history. It adds significantly to our great confidence in the future. I look forward to keeping you informed as it unfolds.

Sincerely,

Keith A. Cunningham
President and Chief Executive Officer



UNITED NUCLEAR CORPORATION

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America's Largest Independent Producer of Uranium